My own feeling is that the only reason then for a wide gold band is that in all probability it would be a necessary corollary to the concept of wide margins.

Let me see if I can make that point clear. I have not tried. I have not wanted to be too technical.

Chairman REUSS. Wide margins on exchange rates.

Mr. BERNSTEIN. Yes.

Let me see if I can explain it. If the dollar fails by 5 percent relative to the mark, the rate would go from 4 to 3.80 marks to the dollar in the exchange market. Now the Bundesbank could not offer to sell gold at their parity of 140 marks to the ounce. Because then another country could sell gold to the Bundesbank at 140 marks to the ounce, sell the marks for about $36.80 in dollars, and buy gold from the United States at $35 an ounce. That would lead to such gold-dollar-mark arbitrage as to bring the mark-dollar rate back close to 4 marks to the dollar. So that my view is that a similar 5-percent margin on gold would be necessary to make the wider exchange band work.

Chairman REUSS. But if you have the reserve agreement——

Mr. BERNSTEIN. That is different.

Chairman REUSS (continuing). Which, it seems to me, you all agree is of the essence——

Mr. BERNSTEIN. You are quite right.

Chairman REUSS (continuing). Then we would waste our time talking about the gold band.

Mr. BERNSTEIN. That is right. If you had the reserve settlement account there can be no reserve transactions in gold between members at all. There can only be reserve transactions between central banks in the composite reserve unit. This gets them implicitly some gold, but only a pro rata part of the composite reserve unit.

Chairman REUSS. I would have just one more question on a subject which has not been raised, but I will raise it.

Under the new SDR agreement, and particularly if the introduction of SDR's is accompanied by the gold and foreign exchange pooling arrangements that all of you gentlemen have said to be essential, the supply of world reserves will be raised by whatever amount the IMF, or 85 percent of the voting power in the Fund, agrees is necessary. What needs to be done, if anything, for countries that are not satisfied with such a rate of reserve growth but think, at least as far as they are concerned, that they need 4 or 5 percent or whatever? Under the proposed system there is only so much pie to go around, and they cannot get it.

Is this a problem and, if so, how is it solved?

Mr. BERNSTEIN. Yes, it is a problem. But I think we had better put the problem with greater precision.

The increase in reserves in the form of SDR's will be a certain percentage of aggregate reserves. The allocations to countries will be on the basis of their quotas.

This means that countries with large reserves relative to quotas will have a small percent increment in their reserves through allocations of SDR's.

A country like the United States, which has a very large quota in the Fund, and which has relatively small reserves for its international purposes, would get a large percentage increment in its reserves through allocations of SDR's.